

unbundle LEC services for enhanced service providers, and the reallocation of spectrum for wireless services.

Clearly, the era of non-competitive communication services is rapidly dissipating and the industry is currently involved in a swift transition toward a fully competitive environment. This transition, as noted by the Commission, is expected to develop more rapidly than experienced in the interexchange market.<sup>70</sup> Thus, the LECs will be facing emergence of competition, while at the same time attempting to recover shareholders investment which were previously deferred by the current depreciation process. u

This situation currently exists in the transport rate structure proceeding,<sup>74</sup> where the combination of emerging competition in the transport arena and the revised rate structure imposed by the Commission result in indirect cost allocated to interstate transport by Parts 36 and 69 for which recovery cannot be sustained in the competitive transport markets.<sup>75</sup> The LECs' comments filed in that docket, unequivocally articulate the universal message that the Commission's goal of introducing competition, coupled with the accelerated pace of technological advancements, is threatening the LEC's ability to recover embedded investment. SWBT's Reply Comments<sup>76</sup> in CC Docket No. 91-213 also noted that further regulatory actions will result in additional competition in other aspects of SWBT's markets (especially in the area of switching and loop investment) and thus will increase the risk of recovery of embedded investments. Therefore, in CC Docket No. 91-213, SWBT respectfully requests that the Commission (in addition to restructuring transport access rates, in CC Docket 91-213) implement both depreciation prescription reform (in CC Docket

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<sup>74</sup> In the Matter of Transport Rate Structure and Pricing, CC Docket No. 91-213.

<sup>75</sup> The Commission has allowed recovery of these costs for an interim two year period through the interconnection rate element. The Commission has stressed the importance that as we move into a competitive market it is important that transport charges only recover costs related to transport service. The 91-213 rulemaking proceeding is addressing the long term disposition of transport costs. FNPRM, 91-213 at para. 133.

<sup>76</sup> See, SWBT's Reply Comments In The Matter of Transport Rate Structure and Pricing, CC Docket No. 91-213, Attachment 1, Amortization For Recovery of Devalued Investments Due To Interstate Transport Competition (filed March 19, 1993).

No. 92-296) and allow for amortization and recovery of a significant portion of the existing embedded investment base to reflect the more competitive environment.

The LECs' comments filed in the present proceeding portray the universal need for simplification and in addition request that the Commission develop forward-looking reform to assist LECs in moving toward the fully competitive marketplace.<sup>77</sup> Reform of the depreciation process is essential to provide for capital recovery in a transitional marketplace, and could be utilized as a mechanism to recover the carriers' embedded investments. Therefore, SWBT urges this Commission to seize the opportunity available within this proceeding, to not merely simplify the depreciation process, but to develop the framework essential for this future-oriented reform. Such reform should provide all carriers, including LECs, the ability to establish depreciation rates that are consistent with the actual remaining

amount of plant investment is currently at risk, and further that a narrow window exists to address and recover this investment.

V. CERTAIN COMMENTORS MISCONSTRUE OPTION II.

While the various commentors do not agree on the appropriate method to achieve the goals in this proceeding the comments of various parties generally agree that simplification of the depreciation prescription process is desirable and that, to the extent possible, unnecessary regulatory restrictions should be eliminated.<sup>79</sup> Several of the state regulators support Option I, which, as explained above, would fail to provide the needed simplification and reform.<sup>80</sup>

In Section II, SWBT identified misconceptions which caused commentors to oppose Option IV. Just as misconceptions clouded a fair and equitable review of Option IV, SWBT believes that similar misconceptions have caused some commentors' analysis of Option II to be inaccurate. In its comments, SWBT pointed out why Option II should be rejected. However, SWBT herein corrects the misconceptions of other commentors.

Some commentors apparently oppose Option II because of a belief that this option somehow ignores the principle constraints embodied in depreciation accounting. The general concern is that this option discards the basic depreciation principle of matching expense to capital consumption since it allegedly ignores basic

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<sup>79</sup> See e.g., NARUC Comments, p. 5; PUC of Texas Comments, p. 1; New Jersey Board of Regulatory Commissioners Comments, p. 2;

<sup>80</sup> See, Section III, supra.

life and salvage factors and is not sensitive to the depreciation reserve position of individual carriers.<sup>81</sup> Such commentators express concern that Option II may result in accumulated depreciation imbalances by not utilizing remaining life procedures.<sup>82</sup> Such concerns are unwarranted.

The concept of matching expense to capital consumption is addressed in SWBT's Comments wherein it notes that GAAP specifically provides that "depreciation be determined in a manner that systematically and rationally allocates the cost of an asset over its useful life".<sup>83</sup> Adherence to GAAP will require LECs to recognize and comply with the matching principle concept, regardless of the depreciation process in place. GAAP also requires the total depreciation charged to the reserve for an asset over its useful life cannot exceed the asset's cost less salvage value.<sup>84</sup> This provision essentially states that no more than the total cost of the asset, as defined by Part 32 for telecommunications carriers, can be legitimately recognized through depreciation expense.<sup>85</sup> Thus, the concern that Option II is insensitive to the reserve position of the carrier is unfounded.

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<sup>81</sup> South Dakota Public Utilities Commission (South Dakota PUC) Comments n. 2; see also Colorado PUC Comments n. 20; State

In addition, current FCC rules and procedures for monitoring reserves necessitate that LECs track reserve balances and initiate appropriate measures to align potential imbalances. Carriers would continue to practice depreciation in accordance with GAAP and FCC rules under Option II and thus the concerns regarding compliance with accounting principles is unwarranted.

As noted in SWBT's Comments, the establishment of ranges for rates (Option II) is preferable to ranges for parameters

VI. CONCLUSION.

For the reasons stated herein and in SWBT's Comments in this proceeding, the Commission should adopt Option IV for all carriers.

Respectfully submitted,

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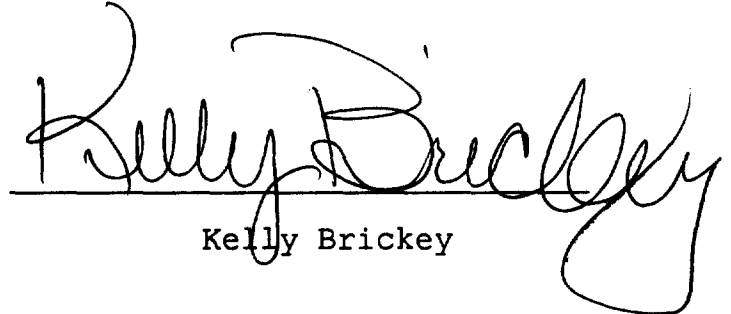
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**CERTIFICATE OF SERVICE**

I, Kelly Brickey, hereby certify that the foregoing "Reply Comments of Southwestern Bell Telephone Company" in CC Docket No. 92-296, has been served this 13th day of April, 1993 to the Parties of Record.

  
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